ACU - 7107

Insider Trading on the Kuala Lumpur Stock Exchange: An Empirical Study

LIM JOOKY

Bachelor of Commerce; Bachelor of Law (Honours)
The University of Melbourne, Australia 1994
CPA (Australia); CPA (M); RA (M)

Submitted to the Faculty of Business and Accountancy,
University of Malaya, in partial fulfillment
of the requirements for the Degree of
Master of Business Administration

MAY 2001

Acknowledgement

I would like to express my gratitude to Associate Professor Susan Tho Lai Mooi for supervising this dissertation. I am grateful to her for sparing her valuable time in providing suggestions and guidance towards completion of this research project.

I would also like to thank my wife, Tan Hwei Juin for her understanding in the duration of completing this research project and for giving me the encouragement and support in finishing this research project.

Abstract

In Malaysia there are strict laws that prohibit insider trading. With the presence of such laws, this study explores whether insider trading exists on the Kuala Lumpur Stock Exchange (KLSE). Information on insider trading obtained from filing made to the KLSE by directors and substantial shareholders from 1 March 2000 to 7 March 2000 were analysed for abnormal returns. Based on daily price movements for 150 days before and after a transaction was carried out, it was observed that there are signals of insider trading on the KLSE.

Insiders managed to maximise their average market adjusted returns prior to selling off their stocks. On average, insiders who have purchased their stocks were found to be able to make abnormal returns. It was found that insiders were able to make a higher abnormal return for stock purchases on the KLSE Second Board as compared to the KLSE Main Board companies. Insiders who disposed off their stocks listed on the KLSE Main Board were found to have maximised their abnormal returns. Similar general conclusion cannot be drawn for insiders who disposed off their stocks listed on the KLSE Second Board. Nevertheless, over a 15-day period, insiders who disposed off their stocks on the KLSE Second Board have been found to do so prior to a decline in the stock prices and thus avoid losses.

This study also found that generally, uninformed outsiders can use the information filed with the KLSE on changes in interest of directors or substantial shareholders to earn abnormal returns by mimicking the insiders buy or sell transactions. Outsiders can earn up to 6% average market adjusted returns within 16 days after insider has filed their purchase of shares and could make a further 2% average market adjusted returns within 14 days after insiders have lodged their disposal of shares with the KLSE.

Table of Contents

APPENDICES